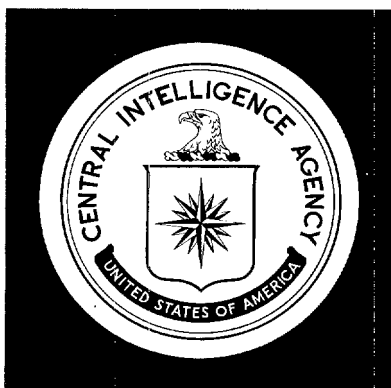


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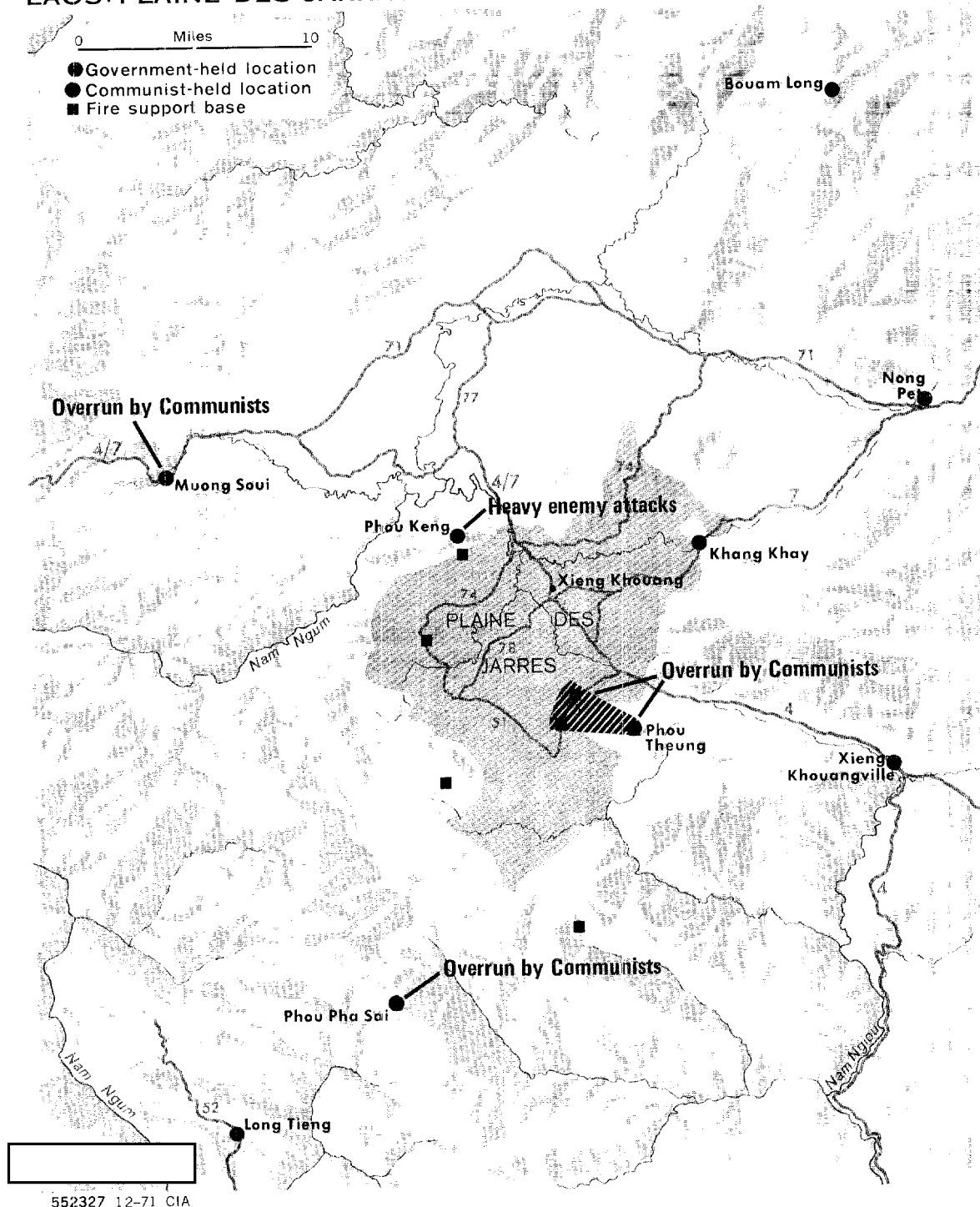
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LAOS: PLAINE DES JARRES AREA



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[LAOS: The situation on the Plaine des Jarres is deteriorating in the face of a full-scale North Vietnamese offensive.

On 18 December North Vietnamese units, supported by tanks and highly accurate artillery fire, launched simultaneous attacks on all irregular positions and fire support bases on the northern and eastern edges of the Plaine. Seven irregular battalions, providing an infantry screen for the northern fire support bases, were dispersed and are regrouping near Xieng Khouang. Their withdrawal leaves a gap between the government's fire support bases on the northern and southern edges of the Plaine.

During the night of 19 December, Communist troops supported by heavy artillery, mortar fire, and tanks overran irregular positions and two fire support bases near Phou Theung. The northern fire support bases near Phou Keng are also under heavy attack.

The accuracy and intensity of enemy ground fire have precluded all resupply and medical evacuation operations on the Plaine. Four USAF F-4s have been downed over north Laos since 18 December. One of these planes was shot down by a MIG. Two Lao Air Force T-28s were also brought down by AAA fire over the Plaine on 18 December. Air observers have spotted five heavy guns--probably some of the 130-mm. field guns recently brought into Laos--emplaced in Khang Khay. Heavy air strikes have been called in on the guns, but no damage assessment is yet available.

The Communists also overran Phou Pha Sai, the principal high point between the Plaine and the government base at Long Tieng. Elements of at least two North Vietnamese regiments have been noted in this area in the past few days. The Communists may **]**

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not have sufficient forces in the area to hold Phou Pha Sai if the irregulars are able to mount a determined counter-attack, however. The town of Muong Soui west of the Plaine on Route 7 also fell to an enemy attack but its loss will not significantly affect the current situation on the Plaine.

The North Vietnamese clearly are making an all-out effort to sweep the Plaine clear of government forces as quickly as possible. If they succeed, they will probably undertake operations toward the Long Tieng complex. The fact that they have already moved some troops into Phou Pha Sai suggests that they hope to push on quickly, but much will depend on the government's ability to re-establish its defensive line on the Plaine.

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INDIA-PAKISTAN: President Yahya Khan's resignation today paves the way for the transfer of power to a civilian government and inauguration of a new constitution as promised some six months ago.

The official Pakistani radio network announced yesterday that Yahya would step down today and turn over power to "the representatives of the people." The broadcast did not specify who is to head the new government, but West Pakistan's leading politician, 43-year-old leftist Z. A. Bhutto, is expected to assume a major role. Bhutto, however, will have to work out a division of power with the military, which will probably seek to retain a significant voice in the running of the country. Bhutto has some enemies in the military establishment and could encounter difficulties as he seeks to marshal military support.

[redacted] Air Force Commander Abdur Rahim Khan and Lieutenant General Gul Hassan, the chief of the Army General Staff, [redacted] are planning to establish a triumvirate with Bhutto upon his return. Bhutto left the US on Saturday

[redacted] He is expected in Islamabad today or tomorrow [redacted]

Nurul Amin, a right-of-center East Pakistani politician whom Yahya had previously designated to become prime minister in the new government, reportedly said in an interview Saturday that he could no longer accept the job. A key purpose of Amin's appointment--to have an East Pakistani figurehead in a top post--is no longer applicable now that East Pakistan is lost. There remains some chance that Bhutto will not have enough military support to become prime minister, and as of yesterday it appeared that Amin had not yet formally stepped aside. However, even if the aging Amin were

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[Appointed as Bhutto's superior in the cabinet, he undoubtedly would be overshadowed by the flamboyant, ambitious Bhutto, whose party emerged as West Pakistan's strongest in the national elections a year ago.

Since Pakistan's acceptance of India's cease-fire proposal on the western front last Friday, both public and military support for the Yahya government have seriously eroded. Mounting anti-Yahya sentiment has been evidenced in public demonstrations, editorial criticism, and denunciations by political and military figures.

In Bangla Desh, little progress has been made toward the establishment of a functioning government. Top Bangla Desh leaders have yet to arrive in Dacca from Calcutta. The Indian Army has succeeded in restoring a surface calm in most of the city, but some Bengali reprisals against collaborators are still occurring and tension is high--especially in the section of the city where some 200 Bengali intellectuals and professional people were rounded up and massacred by the Razakars, or pro-Pakistan local militia, last week.

No significant breaches of the cease-fire appear to have occurred since it went into effect along the western front last Friday. Each country has charged the other with minor violations, most of which involved artillery and small arms fire, but both sides probably expected that low-level violations would occur during the early cease-fire period.

In New Delhi yesterday, Indian Defense Minister Jagjivan Ram called for bilateral talks between India and Pakistan to determine the disposition of territory captured on the western front. Ram indicated that India would oppose attempts to resolve the question of captured territory through third-party mediation. Speculation continues to appear in the press that India might demand the release of Mujibur Rahman as part of a settlement.

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COMMUNIST CHINA - CANADA: Peking has bought just over three million tons of Canadian wheat worth about \$200 million for delivery in 1972.

This single contract nearly matches total Chinese grain imports this year. Grain purchases in 1971, however, have been about 25 percent below the average of recent years, and larger quantities probably will be imported next year. Peking's grain production in 1971 has been only fair, despite a 20-percent increase in acreage planted to rice. Poor weather conditions reduced yields from the fall harvest--the main crop that determines annual grain output.

The large 1972 contract apparently was placed with Canada as a further reward to Ottawa for diplomatic recognition. All Chinese grain imports in 1971 came from Canada, an arrangement penalizing Australia, previously a major supplier, for withholding recognition.

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CURRENCY CHANGES

(in percent from May 1970)

| | relative to the dollar | relative to gold |
|-----------------|------------------------|--------------------|
| Japanese Yen | 16.9 | 7.7 |
| Belgian Franc | 11.6 | 2.8 |
| British Pound | 8.6 | no change |
| Dutch Guilder | 11.6 | 2.8 |
| French Franc | 8.6 | no change |
| German Mark | 13.6 | 4.6 |
| Italian Lira | 7.4 | -1.0 |
| Swedish Crown | 7.4 | -1.0 |
| Swiss Franc | 13.6 | 4.6 |
| Canadian Dollar | about 8.0 | continues to float |

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INTERNATIONAL MONETARY DEVELOPMENTS: Major foreign exchange markets will be closed today to permit traders to adjust to the new currency parities agreed to in Washington.

In Tokyo, Prime Minister Sato announced a 17-percent yen appreciation relative to the dollar. The cabinet ratified the Japanese commitment. Traders, who had expected the yen to appreciate no more than 15 percent, were reportedly shocked by the size of the appreciation. Foreign Minister Fukuda--a likely successor to Sato--described the appreciation as the greatest economic shock since World War II. Officials of the Ministry of International Trade and Industry lowered their forecast of export growth for fiscal 1971 from 24 percent to 17 percent on the basis of the change. Import growth has been sluggish, however, so the Japanese trade position is unlikely to deteriorate for some time. The government, moreover, has assured businessmen and opposition critics that it will undertake policies both to stimulate the economy and offset, in part, the impact of the appreciation.

In Europe, the Monetary Committee of the European Communities (EC) will meet today to assess the impact of the parity agreement on Community policies. The committee is expected to consider how the Common Agricultural Policy's unit of account--which had been tied to the dollar--should be adjusted and how the EC can resume progress toward monetary union. The committee will report to the finance ministers of the Six who will meet on Wednesday. US-EC trade negotiations will also resume tomorrow.

European national reaction has almost universally been favorable. French Finance Minister Giscard and British Chancellor of the Exchequer Barber called the agreement fair and announced that the special controls imposed since 15 August would be relaxed. The German cabinet will go into special session today or tomorrow to ratify the terms and

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Consider measures to stimulate the lagging German economy. The Germans are particularly pleased because the agreement reduces the spread between the mark and the French franc from last week's 12 to 5 percent, thus improving Germany's competitive position in the Common Market.

Financial leaders outside of the major industrial nations are generally taking a wait-and-see attitude before deciding what to do. International Monetary Fund (IMF) officials have suggested a stand-still until full information can be provided. The IMF has also established a temporary regime of wider margins for currency trading. The gold markets are expected to be open today, and bullion dealers expect the free market price to decline from last week's peak.

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ECUADOR: Reports of plans to replace President Velasco with an armed forces dictatorship, possibly with the President's acquiescence and backing, are again surfacing.

Velasco, who seized dictatorial powers in 1970 midway through his presidential term, has promised to hold national elections in June. The leading presidential aspirant, however, is Velasco's arch-enemy, and the President may be reluctant to proceed with elections. In addition, Velasco's vacillating policies and inability to exert strong leadership have led to some military dissatisfaction.

Defense Minister Robles Plaza has reportedly informed associates that the military high command and Velasco have agreed to a plan whereby Robles would seize power through a coup before mid-January. Robles is politically ambitious and enjoys significant military backing. A close and loyal supporter of Velasco in the past, he appears to be a logical candidate for such a military solution, should it be effected.

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NOTES

CHILE - COMMUNIST CHINA: The recent copper contract between China and Chile will draw Peking roughly even with Japan as the third most important purchaser of Chilean copper after West Germany and the UK. Chile will sell China 65,000 metric tons of copper next year under the four-year agreement, the second signed between the two countries since Allende came to power. This represents about ten percent of Chile's total copper exports and earnings of about \$65-72 million at current prices. Payment will be made in convertible foreign exchange at London Metal Exchange prices.

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MALAYSIA: Kuala Lumpur is trying to increase its influence over the world natural rubber market in an effort to halt the sharp decline in rubber prices. The government reportedly is planning to buy rubber directly from domestic growers at a fixed price and market the output itself. Malaysia, which produces over 40 percent of the world's natural rubber, has already been buying some rubber on the world market to bolster prices and has been trying to get other producers to join in setting up an international rubber buffer stock to prevent wide price fluctuations. Even if some support for Malaysia's proposal is generated, a long-term reversal in rubber price trends is unlikely because of competition from synthetic rubber and the slow growth in world demand for natural rubber.

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